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THE PICTURE: The year 1979 may go down in history as "the year the scenarios were destroyed." In the investment advisory business, we all deal with two important items: (1) our own egos, and (2) selling the product of those egos to subscribers. One of the things that happens to an investment advisor (at least after spending a few years in this business) is that he starts developing concepts, ideas, points of views and yes, even prejudices. The net result of all this is that ultimately the advisor starts working up (or shall we say dreaming up) scenarios.

Let's face it, all of us have our pet scenarios. Some analysts are very secretive about their scenario while others shout them from the rooftops. "The US is going under in 1980." Or "The Dow will hit 2200 before 1985." Or "1979 will be an up year the first half and a down year the second half." Blushingly I must admit that I have a few scenarios of my own.

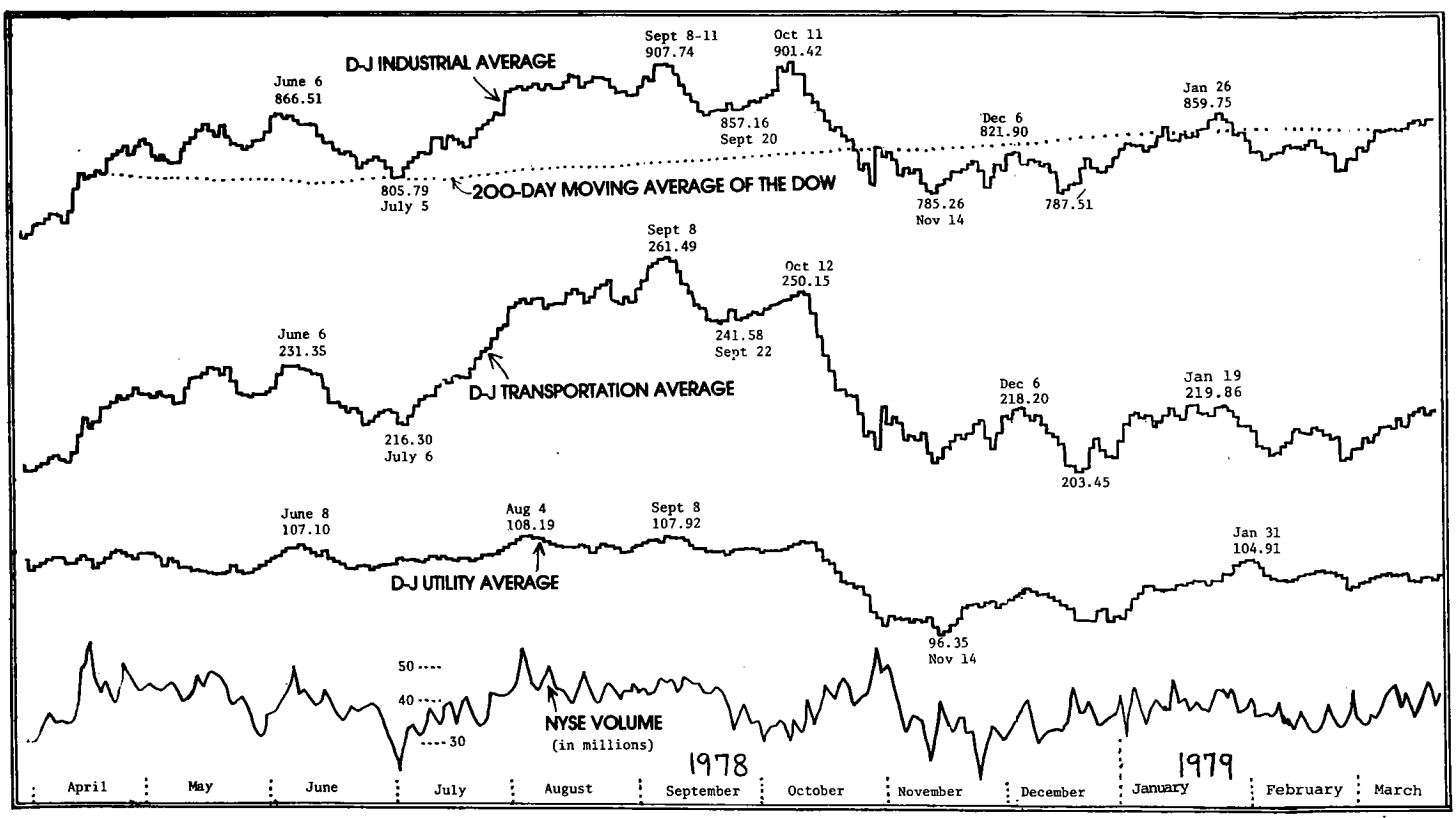
And this is where I sneak in the latest Russell scenario. I read most of the major investment advisories that are being published today. You name it, and I probably follow it. This kind of reading has been a hobby of mine for the past 20 years. But I noticed that 1978 was a year in which most of the scenario writers really got tripped up--and by that I mean that the markets really gave them a hard time.

Now my scenario for 1979 is an outgrowth of the events of 1978. My scenario is that 1979 is going to be another very difficult year, a tricky year, a "cute" year. And it's going to be one that again sees most of the standard scenarios cut to ribbons. Why do I say that? Intuition for one thing. I feel it "in my bones." Secondly, this market and economy are both being over-researched, over-analyzed, picked to death. Too many egos and scenarios are riding on today's markets. For that reason I suspect that 1979 is going to be a bad one for advisors.

Consider the ubiquitous investment conferences. A few years ago Jim Blanchard presented the first monetary conference (and he has been doing that successfully ever since). But now Jim has lots of company. Everybody wants "in" on Jim's act. So we have conferences coming up in every corner of the US, with each conference promising to bring together a cast of leading experts, experts who will not only show us how to survive, but how to profit from the coming holocaust. And the fearful public flocks to these conferences to get "the answers." So I suspect that too many cooks are stirring the economic soup. And too many market prophets are issuing too many predictions regarding our fate in the coming years.

When this kind of atmosphere developed in the past, then the financial analysts and market analysts have had "their heads handed to them." I just feel that we're going to see a repeat of that syndrome over the period ahead. I see it coming in stocks, bonds and commodities. It's going to be the year of the red-faced expert. That's my scenario for the rest of 1979.

"Fabulous, Russell," you retort, "great; and what the devil do I do with that brilliant thought of yours. The year of the



simpleton soothsayer, the age of the asinine analyst. What do I do with it?" And my answer is that we're going to have to be very careful about preconceived notions and scenarios in 1979. There's an old market adage that states, "Lose your opinion rather than your money." So we're going to have to take advantage of *opportunities* in 1979. If we get a market collapse, we'll certainly buy some stocks. If the market continues to go nowhere, we'll stay liquid in T-bills offering fat yields. If inflation continues to heat up and if the precious metals correct, we'll buy more gold. If the bond market appears to have bottomed out, we'll take on some bonds.

But I want this to be a year with as few preconceived notions as possible for me and my subscribers. It's to be the year when we listen to and watch the markets. And it would be well to remember that the statistics can do a thousand different things and the economy can provide enough incidents to fill 10,000 volumes–but stocks and bonds and commodities can only do two things–(1)they can go up, and (2) they can go down.

THOUGHTS: (1) In Letter 748 I reviewed my Fibonacci series, and I gave six reasons (each based on Fibonacci periodicity) why I believe that July, 1979, could be a very significant month. I must admit that I have been thinking of July in terms of an important bottom for the stock market. But it would be well to keep an open mind on this. It's just possible that July is to be an important top (the Fibonacci series does not specify a top or bottom–it simply points to a significant date).

(2) There's a *consensus* that "real estate is too high; it's insanely high, and this goes double for California." Yet I note that the money keeps pouring into real estate, and this includes increasing amounts of foreign money. Could it be that an even greater speculative "blow off" or boom lies ahead in real estate? I feel that it pays to keep an open mind on this one.

(3) The Government has been flirting with the idea of squeezing the economy, or at least putting some kind of a brake on prices. Yet the Washington establishment must know by now that the next recession is going to produce a huge shortfall in taxes, one that will balloon the Federal deficit out into space. This has brought on the extreme reluctance, the outright fear of risking a recession. I believe the markets are beginning to sense this fear (on the part of the Government) of halting inflation. Thus the markets, held somewhat in check by high interest rates, have continued to push to the upside. The pressure of money seeking to protect itself keeps bulling the various markets. But it is still the area of "things" (real estate, collectibles, etc.) that is getting the play. At the same time, investors are still somewhat afraid of stocks. And this situation just–continues.

(4) The fear of collapse, the fear of recession, the fear of some kind of catastrophe, the fear of a foreign disaster weighs heavily on the minds of most investors. This all-pervasive pessimism has kept the stock market in a relatively strong technical position. It has prevented a cave-in in equities. Meanwhile, the high yields on competing money instruments have prevented the stock market from breaking out and running away on the upside. Result: a standoff, a trading range in the averages.

(5) Veteran market practitioners prefer to buy the market at or around major and historic bottoms. The last such bottom was October-November, 1974. In the absence of another such bottom (and one is greatly overdue) the market is going to try to draw buyers into it. It's almost as if the market was saying, "C'mon in, fellows. The water is fine, and forget about waiting. There isn't going to be another 1974, so why wait. Time is passing, and stocks are cheap and you're not getting any younger–and the big move lies just ahead." The market is a siren, and it will always try to bring you in near the top and take you out at the bottom. The market survives on investors' impatience. The graveyards of Wall Street are dotted with men who were "right too soon," or who couldn't wait when Wall Street started singing its siren song.

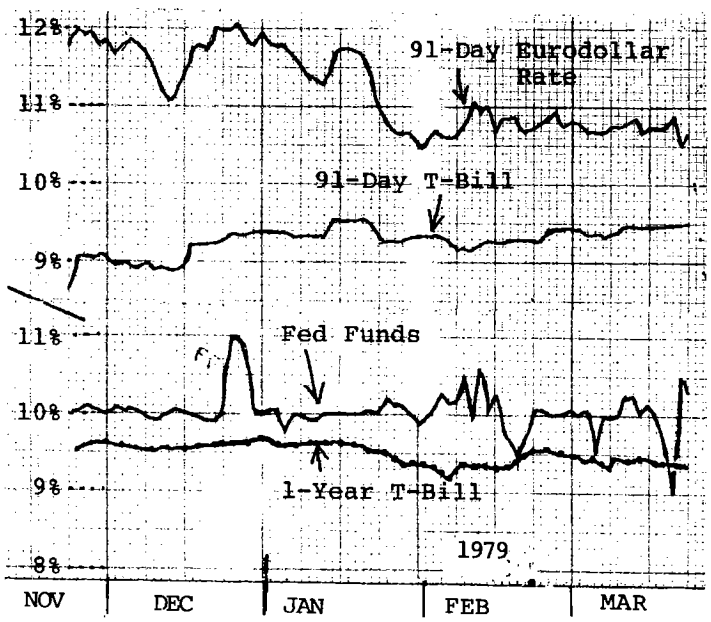
(6) Today's high level of anxiety and pessimism matched against an over-extended period of prosperity–has produced (of all things) a certain kind of stability. Right now stocks, money rates, commodities, bonds all are rather stable. Could this be the big surprise for much of 1979–stability!

COMFORT: I've just plowed through my Monday mail, which includes perhaps 30 different investment services. I must say that I have mixed feelings of both fatigue and irritation as I go through the various predictions and forecasts. As an antidote, I turn to my charts, and of course they show what ACTUALLY IS HAPPENING versus what everybody thinks "should happen."

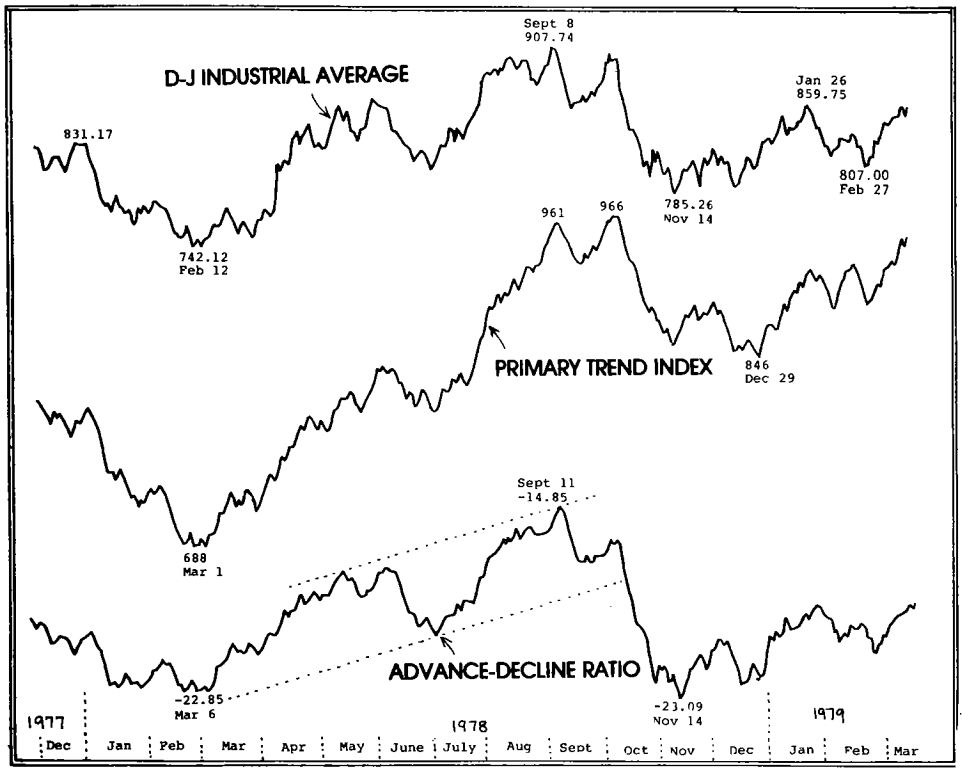
Right now, despite all, the dollar is holding steady against foreign currencies. Even the pound (which looked stronger) than the franc, the mark or the yen over the past month) has fizzled out against the dollar. The yen, which has come down hard over the past five months, looks as if it needs a breather (a possible upside correction against the dollar).

Money rates: everybody's got a prediction about money rates. I chart (daily) four key rates, the Eurodollar 3-month rate (which is a key indicator, since it is outside the province of the Fed), the 91-day T-bill rate (which is a widely watched rate (but subject to Fed manipulation), the Fed Funds rate (which is widely watched and very sensitive), and the 1-year T-bill rate (which is not manipulated by the Fed and is a better indicator than the 91-day bill rate).

As you can see by my chart, the money markets are steady with no particular upside pressure as yet. Eurodollar rates, in fact, have come down from 12% last December to under 11% today.



THE MARKET: I must apologize for a mistake I made in the last Letter: the significant preceding peak for the D-J Transportation Average (page 1 chart) was the January high of 219.86; NOT the 218.93 figure that was mentioned in the last Letter. By the



time you receive this mailing the mistake may be academic in that the Transports may have pushed into the 220 area.

The significant preceding Industrial peak was the 859.75 high of January 26. On March 22, the Industrial Average rallied above the 859.75 point, and thus one half of an upside confirmation was provided. On March 23 we witnessed strange action as the Transports jumped to 219.76 (just .10 below the 219.86 confirmation point), but the same day saw Industrials decline by 1.56 points to close at exactly 859.75!

This is an awkward time to write a Dow Theory Letter in that we have Transports within a hair of confirming on the upside, and this in a rather sloppy market that is keeping everyone sitting on the edge of their chairs. But Wall Street doesn't arrange its acts to fit Richard Russell's printing and mailing schedule, and the Street couldn't care less about giving me neat and tidy conclusions.

Let me put it this way: any time one Average betters an important preceding point unconfirmed by the other Average, the market presents a study in high drama. The reason is clear. A confirmation by the lagging Average will often set off a good extention of the move. Moreover, a confirmation serves to remove traders' doubts and "clear the air" from a technical standpoint. Conversely, if the companion Average persistently refuses to confirm, seasoned traders and investors know that there is something wrong, and they prepare for the setback that almost always follows.

The daily chart of the Dow, the Primary Trend Index (PTI) and the A-D Ratio is worth studying at this time (page 3). The strength in the PTI has been remarkable. Note that at the December low, the PTI was far above its earlier March, 1978 low, even though the performance of the Dow was less impressive and the performance of the A-D ratio was downright bearish (the A-D ratio in November broke below its year earlier level).

On the most recent rally the PTI pushed to within 12 points of its 1978 high. The PTI is my own indicator, an amalgam of eight critical indices and averages. To my mind, the single most impressive factor in this market is the amazing and persistent strength of the PTI. I have said before and I'll repeat—a steadily rising PTI will act as a "rising floor" for the rest of the market. Sooner or later in a situation such as this one, either the market will rise in harmony with the PTI or the PTI will turn down. The same can be said of a steady downward path in the PTI. Such action must drag the market down over any period of time—or the PTI must change direction.

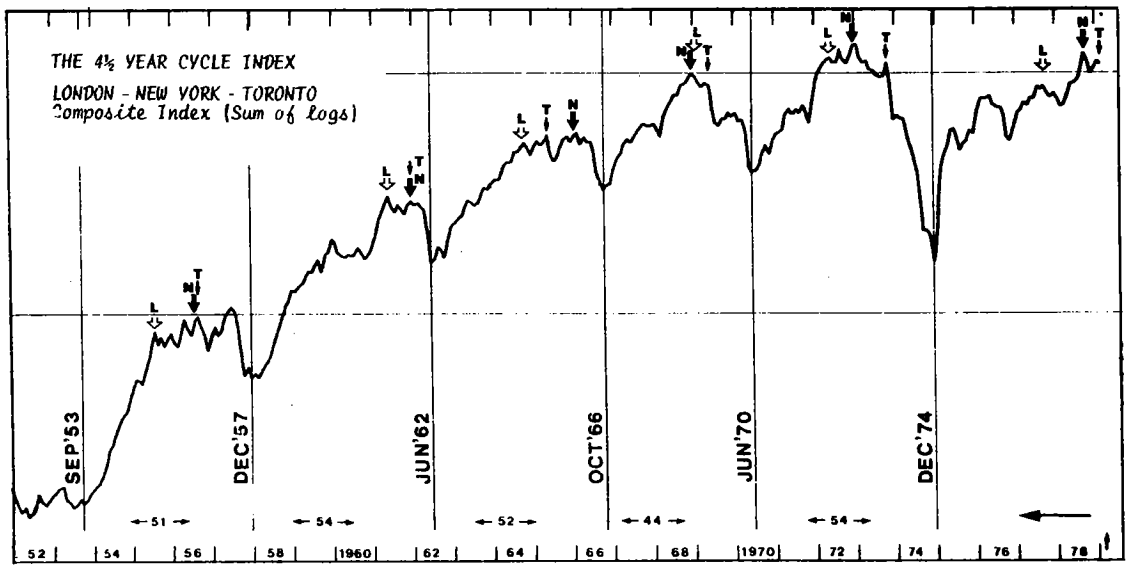
Now let's turn to the A-D ratio. On March 22 the A-D ratio rallied above its January peak. The A-D ratio is in a peculiar position at present. It is at a new high for 1979, but it is still a full 5 points below its peak of last September. Thus, the A-D has a lot of upside ground to cover if it is to match the strength of the Dow or the PTI.

Conclusion: I have been saying that I see market firmness and strength into the April to early-May period. But the market is now becoming very "over-bought," according to my studies. There is a feeling of "huffing and puffing" on rally days, and most advances are accompanied by sell-offs near the close. Thus it's obvious that many investors are willing to swap stocks for cash during periods of market strength. As I see it, the biggest technical plus in this market is the steady power of the PTI. The negatives are the Transport nonconfirmation (which could be erased by a bettering of 219.86) and the lagging A-D ratio.

In view of the current over-bought condition of the market and the reluctance of the A-D ratio, I continue to opt for liquidity in the form of US Treasury bills. These short-term credit instruments hit a yield of 9.5% last week. Considering the fact that (1) they are sold on a discounted basis, and (2) you pay no state taxes on them, it is fair to say that the bills provide a real yield of about 10%. And that kind of return (with a very high degree of safety) is hard to ignore in a stock market that is probably heading for a late-April or early May top.

I often wake at 2 or 3 in the morning with a single question simmering through my mind: "Did I steer my subscribers correctly in insisting that we choose liquidity and opt for T-bills?" In all honesty, I think that the 90% T-bills and 10% gold position was the safest and best advice for the average subscriber. Nobody who held that position lost money this year—and that's more than I can say for most investors and traders (judging from what I've been hearing from one side of the country to the other).

WHEN? While at the recent excellent Beverly Hills Conference (American Economic Council) I saw many friends, including Jim Dines, Howard Ruff, John McFalls, Bob Bleiberg, and that superchartist from the far north, Ian McAvity. Ian was having a little seminar of his own, and for the seminar he had produced a great chart book. Ian was good enough to give me one of his albums, and while reviewing it on the plane coming home I immediately zero'd in on one particular chart.



The chart (presented on page 4) shows a **composite** of three indices, New York, London and Toronto. At major tops London tends to lead NY, while Toronto tends to lag NY. Thus, a composite of the three markets should provide the best cyclical view of what "could happen." Here we see the 4½ year cycle, which has faithfully appeared roughly every 51 months during the past quarter century.

I have been writing that since World War II the NYSE has never gone more than 52 months without producing an historic bottom. We are now making history in that the market is in its 53rd month since the October-December, 1974 bottom. Ian's chart emphasizes the "missing bottom" concept. Has the 4½ year cycle become obsolete? Don't bet on it. What I'm afraid of is that another old law of Wall Street will ultimately apply—the longer a force is held back, the greater the violence and intensity when that force finally expresses itself. (Chart courtesy of Deliberations, PO Box 182, Adelaide St. Sta., Toronto, Canada M5C 2J1).

BONDS: In 1977 foreign governments bought half of all the new US Government bond issues. Now, with the dollar turning stronger and the various central banks wanting to diversify OUT of dollars, foreign central banks are **selling** into the strong dollar market. The suggestion here is that the domestic market is going to have to provide a good deal more financing this year than it has in recent years.

This "should" produce weaker bond markets, and such may be the case as the year wears on. But we deal with markets in this report, not potential flows of funds or textbook concepts. The accompanying chart shows my own very broad "bond index" based on advance-decline and high-low action in the NYSE bonds. For instance, if a given day produced 70 more advances than declines and 25 more highs than lows, I give the day a mark of plus 95. The five days' statistics are computed each week, and the total for the week is entered on the chart. This process provides a broad and accurate picture of what over 1200 NYSE bonds are doing.

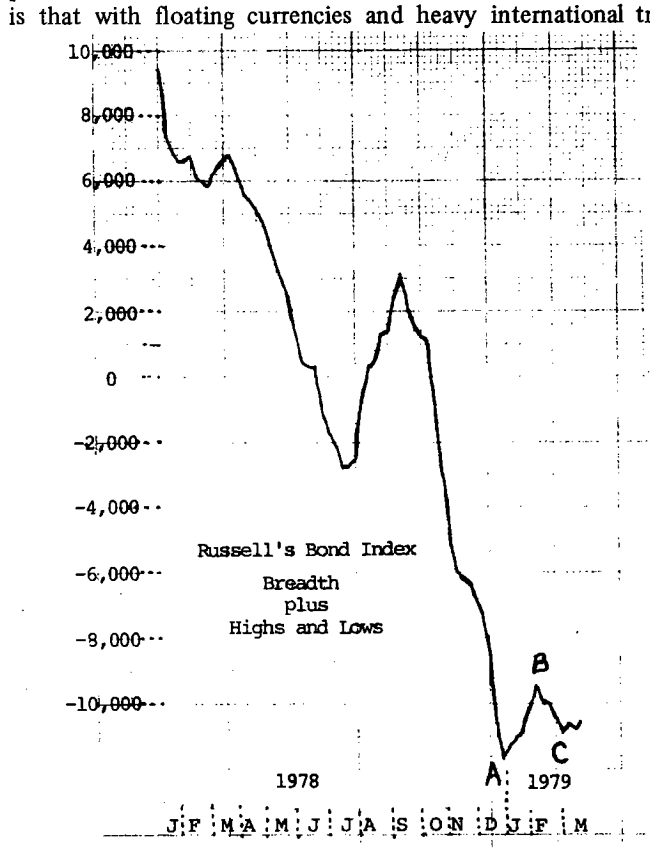
The Index came down to a December low (A on chart) of minus 11,700. This followed the horrendous collapse from the January, 1977 high. Next, the Index rallied to minus 9,500 last month at point B. In early March the index backed off to minus 10,900 at point C. From here on, the action of the Index should be most significant.

If the Index rallies above point B, it would seem to me that we could have a substantial retracement of the ground lost since the September, 1978 peak. Furthermore, real strength in the bond markets would signify (a) a stronger dollar, and (b) a stronger stock market. Conversely, a break below the December lows (at A) would be bearish all around. Such action would indicate lower bond prices and higher interest rates. In that event, we could expect increased pressure on the stock market.

In either event, the action of this Bond Index will be watched closely. And I will immediately report the action if the Index breaks either above point B or below point A.

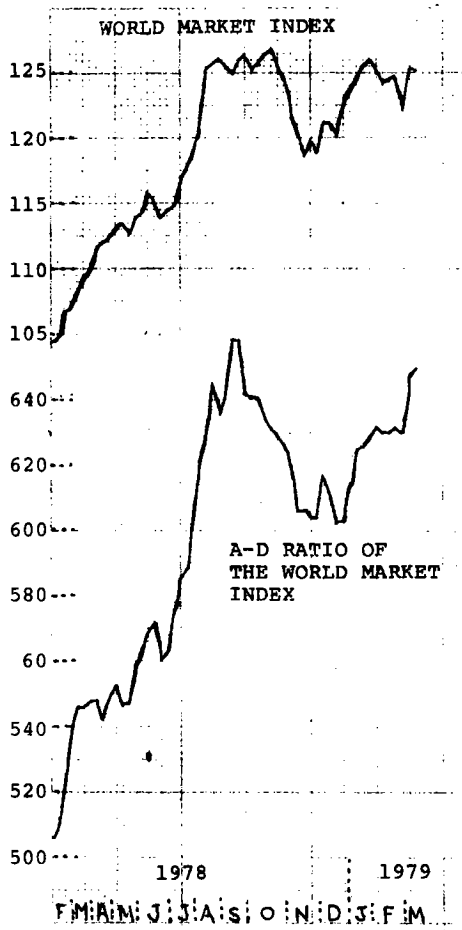
For those who want tax-free income, I'll repeat this suggestion. Do NOT buy individual (very illiquid) municipal bonds. Rather buy no-load Fidelity Municipal Bond Fund at current 9.50 price (where it seems to have stabilized). If this fund drops 1% (to 9.40) then sell out. The Fund offers a tax-free yield of about 5.8% at this time (Fidelity: 800-225-6190).

FOREIGN MARKETS: When I first started writing about the foreign markets (perhaps 15 years ago) the discussions didn't make much sense to readers. Whether the stock market of Britain or Germany went up or down made no difference to the great majority of my subscribers. Today things have changed. And even on the radio we hear that the Japanese market has jumped 50 points or the British market has dropped 10 points. The fact is that with floating currencies and heavy international trade,



the world is more an integrated economic "unit" than ever before.

For this reason, I follow the foreign markets (chart at right) rather closely. And one of the ways I follow it is through the world market index (as reported in Barron's) and through an advance-decline line of 18 major markets. The figures are entered on the chart once a week. Here we see a peak on the A-D line in September, 1977, a drop on both the index and the A-D into December. Since then the index and the A-D have been rising, but so far new highs have not been registered.



I believe the international markets are in a most significant area now. With a little additional strength, new highs would be registered all around. But continued resistance here and then a downturn would suggest that the world boom was either cooling off or running into trouble.

NOTES & QUOTES: I knew Joseph Kraft (the widely syndicated political columnist) back in my high school days. Joe tends to be a "Gung Ho Liberal" Democrat, so I have been interested in his views regarding Jimmy Carter. In his column of March 15 Kraft offered some interesting impressions of the Carter Egyptian-Israeli peace pact:

Out of the jaws of disaster President Carter has snatched a fair prospect of peace between Israel and Egypt. In the process, however, events have underlined anew the decline of American power in the world.

So while Mr. Carter deserves high marks for what he did, the fact that he had to do it mutes his triumph. The sad truth is that it took an American president six days of round-the-clock shuttle diplomacy to budge by a couple of millimeters two relatively weak countries almost totally dependent on the United States for their very existence.

But the settlement can stick only if it spreads — first to Saudi Arabia and Jordan and then to the other Arab states and the Palestinians. That means rebuilding confidence in the United States throughout the Near East. The starting point for that enterprise is close to zero.

The spectacle of a shuttling President, begging Sadat and Begin to be reasonable, accommodating his moods and schedule to their most idiosyncratic political needs, serves to remind us how far the United States has to go to reassert its position in the world. And by "us," I mean not just the President, and the administration and the congress, but all of us.

* *

I'm not sure why, but the sale of Krugerrands is now sagging dramatically. And this means that S. Africa will have to sell more gold in bullion form. Krugerrand sales for January and February, 1979 were 373,579 coins vs. 1.2 million coins during the same months last year. Thus Krugerrand sales have dropped an amazing 69% during the first two months of 1979!

* *

In reading about Einstein's Quontum theory (London *Economist*) I was struck with the "Uncertainty Theory." It is obvious that this theory applies just as much to the stock market as it does to physics. For instance, I find the movements of any stock average more "reliable" than the movements of a given stock in that average. Secondly, in studying the price movement we are ALWAYS dealing with probabilities rather than certainties.

The third fundamental of the quantum view of the world is the "uncertainty principle". This states that you cannot have precise and complete knowledge of a particle, even in principle. Therefore you cannot *predict* what any particular particle will do—although you can calculate the *probability* that it will behave in a certain way.

The best analogy is with tossing coins. Toss a large number, and you can say statistically that half will come up heads, and half tails; but you cannot predict the outcome of an individual toss. Similarly, with things like unstable radioactive isotopes that decay spontaneously, you can say that half will decay in so much time (eg, carbon-14 has a half-life of 5,730 years); you cannot predict when a particular atomic nucleus will decay.

* *

Amid chronic inflation, the average American continues to try to "make up" for what inflation has cost him. But I've often said that more money is lost trying to beat inflation than has ever been lost due to inflation. The stock market has been a very tough place to make money in over the past two years so lo–the rise of the commodity trader. The March 19 L.A. Times carried a piece entitled "Confessions of a Commodity 'Junkie'." The article seeks to find out why amateurs continue in increasing numbers to try to beat the pros at commodity futures. I thought the following excerpts were worth repeating.

He loses money more often than he wins, and he frequently knows little about commodities, say veteran traders.

But he's hooked by the high-rolling game of price speculation as surely as a kite on a power line.

"Commodity trading does something to your guts," said a veteran part time speculator.

"One day I was having lunch with a friend who had been trading pork belly (bacon) futures and had lost a couple of thousand dollars. He looked paler than usual, and I asked him, 'How do you feel?'

"He said, 'Aside from the fact I can't sleep at night, I have this knot in my stomach. There's this feeling in the pit of your stomach after you've lost.'

"I don't know what it is," the speculator continued. "Maybe it's the speculative element, or the dashing of your hopes, or the feeling of failure, or thinking maybe you've been conned. But the bottom line is that you've lost all that money.

"You can be walking through the store with your wife the next day and she sees something on sale and says, 'Look, we can save money if we buy this.' You realize that she's talking about saving $10, and you've just lost $10,000, and suddenly nothing seems real any more.

"It destroys your peace of mind."

The speculator quoted above was encouraged by occasional paper profits of $10,000 to $20,000 to continue to trade commodities for 10 years, despite real net losses of $10,000 to $15,000. The prospect of such profits, in return for a relatively small cash deposit or margin money, entices many like him into commodity trading.

It's not clear how many amateur speculators there are. But they clearly contributed to the blockbusting 36% jump last year in the volume of trades in the futures industry, say brokerage house sources.

* *

When a corporation breaks even for the year or loses money, it generally pays no taxes. This infuriates our Government. Furthermore, with Social Security now providing 30% of the Government's income, Uncle Sam is now searching around for a way to

sneak in a solid new "painless" tax while maybe taking some heat off the hated Social Security payments. The possible answer: the Value-Added Tax, a tax on each stage of manufactured goods. This would raise the price of everything, but since people are used to inflation, who's going to scream? The other thing about VAT is that it raises revenue for the government quicker than any other tax ever invented–whether in good times or bad! SO.... expect the US to start shifting into the VAT situation. I can tell you this–the politicians would love VAT. And it's only a three-letter word.

* *

I want to compliment the men who put on the recent Phoenix Southwest Monetary Conference (North American Coin Co.). It was leisurely and a pleasure to attend. I spoke there, but I think the real thrill to attendees was seeing (and actually hearing) Texas super-tycoon Bunker Hunt. Hunt made what I believe is his first public appearance anywhere. Mr. H, and his brother practically took over the silver market a year or so ago!

* *

This little squib offers just another insight into the perfectly idiotic collection of items which the US calls its "energy policy." Cheaper gas, arrogantly turned down by the US two years ago, ain't so cheap any more.

Mexico will sell gas to the United States at $3.15 per thousand cubic feet, a price 21% higher than one fixed two years ago privately by Petroleos Mexicanos and six U.S. gas companies, the Mexico City Daily Excelsior newspaper reported.

* *

PAIN, PAIN, GO AWAY..... Customs, fashions and mores can tell us a lot about what may be coming up in the markets. What the nation is thinking and doing is often reflected in the markets and in the economy.

I've been saying that a good deal of our troubles have come from the American obsession with **avoiding pain**–any kind of pain. Whether you're talking about dope, liquor, or a policy of "never a recession in the economy," the avoidance of pain syndrome is the same. On the economic front, the narcotic has been inflation. "Keep pumping up the money supply, and we'll never have to pay the piper," is the rule of the day in Washington. But like a man who slaps band-aids over a cancerous sore, the pain will out. It's simply a matter of time.

I recently read a most significant article by Richard Louv regarding the new craze in NYC. The craze seems to be a seeking for pain–as expressed in sado-masochistic pursuits. My first reaction was, "The nation has been hiding or avoiding pain for so long that now people are unconsciously looking for pain!" It's become a sick game. Following are some fascinating quotes from the article:

NEW YORK — They're down on Prince Street, with their sado-masochistic fashions: the New Youth. Spiked heels and tight jeans and hard makeup and padded, macho shoulders for the women; razor-cut ducktails, turned-up collars, passive-looking clothes for the men.

Commercialized decadence is in. Leather bars and peep shows are moving out of the shadows and into the popular culture, especially among the extremely affluent. And it is not sexuality which this trend glorifies, but pain.

"It's happening here," Paul says. "I don't know if it's happening anywhere else, and I don't know what it means. If it does mean anything. But it feels alienating to me. Studio 54. The disco scene . . . "

Why would she flirt with S & M?

"Because it's what's happening," she gushes. "Why not?" She looks innocent. "It's the way things are. Everyone hurts each other anyway.

"Maybe inflation causes brain damage," says one of the men.

New Yorkers are a bit like the folks on Battlestar Galactica, set adrift, cut off, a world unto themselves. While Los Angeles in the past couple of decades, has dictated the nation's dreams, New York has been edging back to that role.

If you think "punk rock" died, check again. It has been resurrected in almost every popular magazine: Look closely at the fashion pages — at the styles which flirt with the symbols of danger and pain. Harpers editor Lewis Lapham calls these trends "the fashionable gestures of despair."

S & M fashion is not only leather and chains worn by melodramatic fellows on the street; but fur ads in Vogue which feature women being attacked by Dobermans. Not just a safety pin through the ear lobe; but Yves Saint Laurent pushing his new perfume, "Opium," at $100 an ounce: fashionable submission, ennui.

The fashion encompasses the self-destructive territories of narcissism and nostalgia. A Beverly Hills shop advertises 14-karat gold eyepatches: Handicap chic.

The Fifties Look allows escape from the future; Elvis becomes a cult and a rock group bills itself as "The Dead Kennedys." In clothing, art and media, S & M fashion is a fascination with pain and self, with what is dead and gone, with passivity and violence.

New York has always, through culture shock, warped the perceptions of visitors from the hinterlands, who often leave wringing their hands and shaking their heads. But if you ask some members of the New York media if pain is in style, they'll nod their heads enthusiastically. In fact, some are rather proud that New York finally, after a long drought, has offered something to the country before Los Angeles packaged it for prime time.

Headquartered in New York, New Times magazine, the national publication which made its name on concerned, in-depth investigative reporting, recently released an entire issue on decadence. New Times editor Jane Amsterdam says, "There's no question that decadence is big here. I really don't know if it's spreading to the rest of the country. But here, it's big. And not just in clothing styles, but in the way people treat each other. Restaurants, for instance. Especially French restaurants. It used to be that you expected your waiter to be your friend, to be helpful and considerate. Maybe, at the worst, a waiter at a French restaurant would sneer at you if you ordered two fish entrees. But now, people pay to be abused by waiters. That seems to be what they want."

The growing glorification of pain and narcissism in shops, art, advertising and the pages of Penthouse and Vogue alike, tends to telegraph the fragility of our national fabric. Paul, who is beginning to come to terms with this, says, "After the Guyana tragedy, I'd turn on the talk shows and listen to the psychiatrists pontificate about religious cults. They said American freedom was one cause." When faced with so many decisions, claimed some psychiatrists, people overload; they look for one big decision, a single leader to help them cope with freedom. "But I can't accept that. I don't think it's freedom that overloads them, but the emptiness of the decisions required of them by the media. To wear cuffs or not to wear cuffs, that becomes the ultimate question." And the really important decisions of life are lost in the flood of transient fashion.

Wondering about this new generation, Paul is quiet for a moment. "You know, I go down to the very-hip cafe next door (John Lennon used to live across the street and went to that cafe), and I watch how young people deal with each other, how they pose for each other and practice being cool — or cold — in their spiked heels and leather and military coats, with their razor blade pendants and coke spoons, and I feel extremely lonely."

Never before, he adds, not even during the riots of the '60s, had he been able to imagine Nazi storm troopers in America. Until now. "I could easily imagine them walking into the cafe and no one would be concerned. The storm troopers would fit right in. They'd be in style."

GOLD: I include here the latest tabulation on US finances, and it is obvious that our great, bloated nation will see an even $800 billion in Federal debt within a matter of months. Meanwhile, gold lies dormant, resting after its powerful rise from the 103 low of 1976 to the recent 254 peak.

Government Finances

WASHINGTON (AP) — Here are the figures on government spending and debt (last six digits are omitted) as of March 21:

Total public debt →	795,439
Interest on public debt for Jan.	4,412
Int.fiscal year through Jan.	28,217
Budget deficit for Jan.	2,731
Budget deficit for Jan. last year	3,717
Budget deficit fiscal year so far	26,499
Estimated deficit fiscal 1979	33,200
Outlays fiscal year so far	164,313
Outlays same period year before	138,224
Gold for Jan.	11,592

It occurred to me that of the 21 years that I have been writing these reports, perhaps 18 of them have been spent in identifying potentially profitable (or dangerous) market trends, picking out stocks that might do well, discussing markets and how to operate in them. All that has changed now. In reading hundreds of letters and talking to literally thousands of people I can tell you that people aren't fascinated with beating the markets any longer.

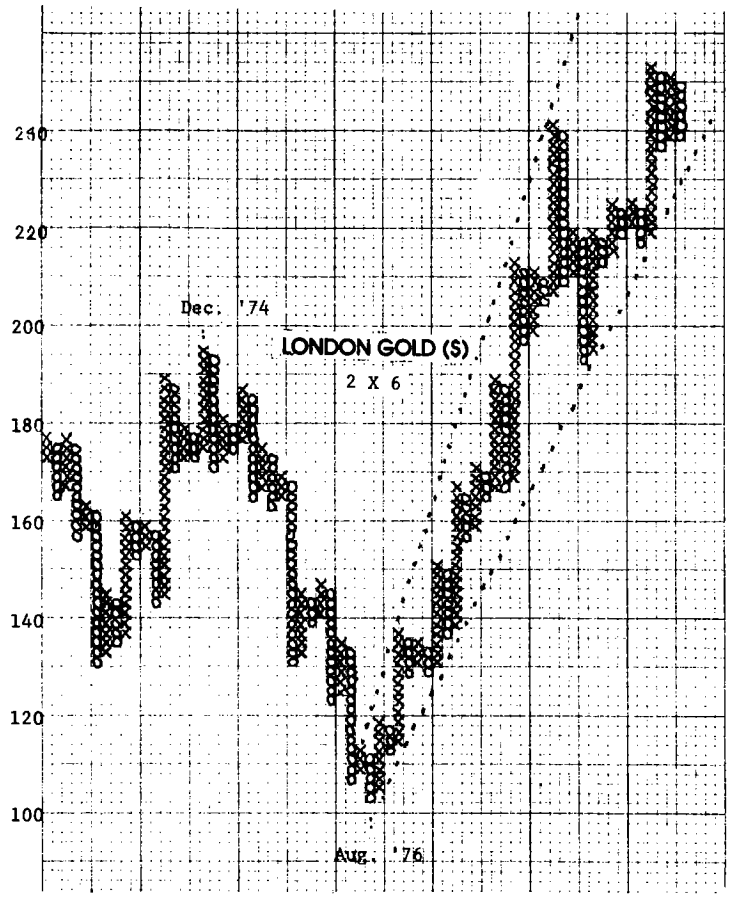
"Oh no," you ask, "then what the devil are they interested in here in 1979? " And the sad answer is best described by the title of the fabulous disco hit waxed by the Bee Gees this past year. The title of that song, prophetically, is "Staying Alive." And that's what people are interested in, that's what they're worrying about, that's what they're obsessed with today.

I don't care whether you're talking about millionaires in Lubbock, Texas, or shoe salesmen in Hicksville, Long Island, everyone is trying to "make it through" the 1970's. And any of my brave fellow analysts in the advisory business who don't see this and understand this are going to have a difficult time of it. The problem today is financial survival, and that is what gold is all about.

Look, at the current level of 240, gold is not cheap any longer. Figuring 10% or 11% to finance an ounce of gold, you're talking about upwards of $25 an ounce just to carry the yellow metal. And if gold does shoot up to say 400 to 500, it will be reflecting the oncoming destruction of the dollar as a currency. Furthermore, if gold rises to some airy height, the implications will be so horrendous that my own feeling is that if you "make it in gold," you are surely going to lose it somewhere else (if only in the area of human liberty).

So I see gold as an "insurance metal," and it's my sad duty to advise subscribers to buy some insurance to the tune of maybe 10% of your assets. At the rate the US debt is rising, the nation is going to have to choose between rising inflation (which tends to float the debt) or recession and deflation (which tends to obliterate debt via the bankruptcy courts). Either way the buying power of US citizens is being systematically destroyed, and those who hold gold may at best stand still on the down escalator while their less-lucky fellow men will simply slide away to ultimate financial defeat.

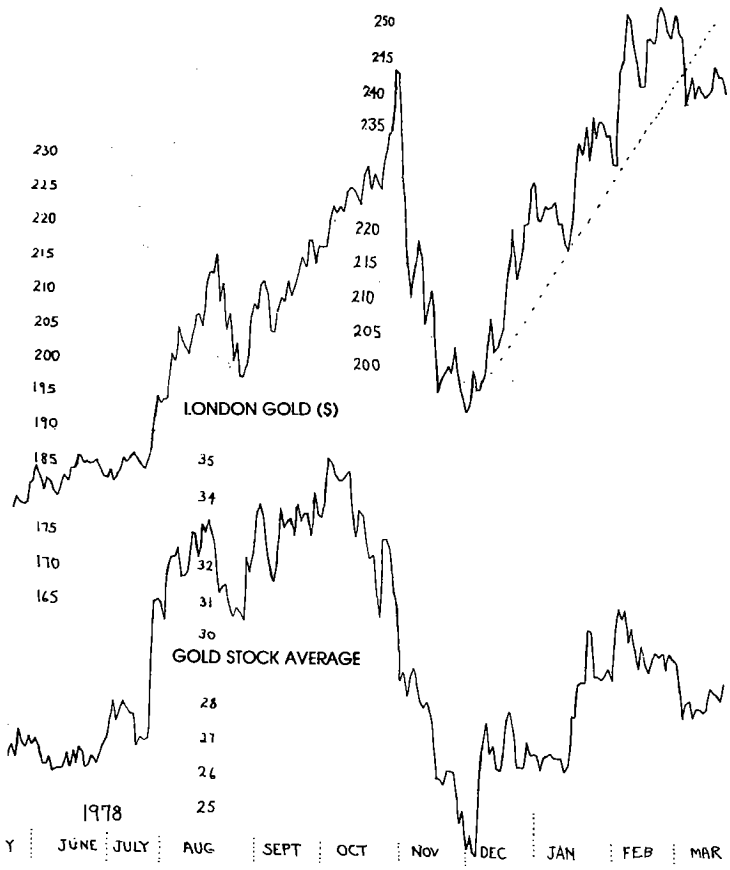
You don't have to be a genius to see what has been happening to gold. The 2X6 point and figure chart (each box equals 10 points) says it all. Since August, 1976, gold has been traveling up an "expanding channel," and the metal has been losing upward momentum over the past month. At 240, gold is about 12 points above the lower channel line. My bear points are 237, which if touched would represent an important break. Next, 226 would mean a rupturing of the lower trendline on this chart. And that's as far as we need to go on the downside. On the upside, a new high at 256 would be needed to sound the "all clear" for gold.



My daily "confirmation" chart of bullion (page 6) and the gold stock average (GSA) continues to indicate weakness. To put it succinctly, gold ceased to confirm on the upside last October, and if you had sold your gold down to the 10% level at that time you would have done fairly well. If bullion and GSA make new highs above the February peaks I'll start being impressed. Until then, I'd say that 10% of your assets in gold coins should represent reasonable insurance against the US Government's policy of legal thievery via planned inflation.

Mary Baker Eddy (who founded Christian Science) once wrote that "the only power evil has is the power to destroy itself." Since the US Government has the power to inflate and inflation is evil, I often ponder (with much sadness) what this means for us all. But the people have the vote, and the vote is the ultimate power in a Democracy. Implicit in the concept of majority rule is that the people get what they voted for and therefore what they deserve.

And the depressing fact is that most Americans still love inflation and will instantly opt for inflation rather than accept the pain of deflation and depression. Those are the choices, and stocks and bonds and gold and commodities couldn't care less. The markets move sans emotions. They are the bloodless indicators of simple supply and demand. But the markets are relentlessly honest, and that's why politicians hate them and destroy them.



At the bottom of this page are a couple of charts that I thought were rather significant (charts courtesy of SMR, PO Box 14096, Denver, Colo. 80214). Chart number 1 shows the Swiss franc in terms of dollars, and here we see the big November top-out. I have numbered the three descending peaks in Swissie with an a,b,c. This is the September, 1979 futures contract, and we can see that important support comes in at just under .62. Any further drop in Swissie would break this support, and of course, be bullish action for the dollar. The ten week moving average (dotted line) comes in for September Swissie at about .63, and I would want to see the franc plow above .63 before I would say that the dollar is fading against Swissie again. Prognosis: the greenback is holding its own against the hard currencies. And there is the distinct possibility that the dollar could turn even stronger.

Chart number 2 might be labeled, "The End of the American Hamburger, As We Know It." This chart of live beef cattle (June, '79 contract) traces the upward explosion in beef that began last October. In a period of five months live cattle prices have risen almost 30%. The results are explosive, and according to Nation's Restaurant News, McDonald's has lifted the price of hamburgers three times in the past six weeks! The fast food business is bound to get squeezed as the beef rise continues, and my only thought is this: maybe somebody up there is telling us that the day of the vegetarian has arrived.

But based on what I hear out of Europe. American food is still the biggest bargain around, and I can whip up a very nice chicken dinner with vegetables (for three) for about $4. So until next time, this is your "semi-vegie" editor from La Jolla, telling you to cut down on cholesterol and save money–all in one fell swoop.

NEXT MAILING: April 11

"IT is the highest impertinence and presumption . . . in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense . . . They (kings and ministers) are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the State, that of their subjects never will."

Adam Smith in The Wealth of Nations.